

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Ottawa, Canada

Meeting Date: December 2-5, 2013

Agenda Item 8

For:

☒ Approval

☒ Discussion

☐ Information

IPSASs and GFS Reporting Guidelines

Objective of Agenda Item

1. To consider (a) proposed projects, and (b) a draft policy paper for inclusion in the IPSASB's 2014 work program consultation, arising from the Alignment Task Force's in-depth review of responses to the Consultation Paper (CP), *IPSASs and Government Finance Statistics Reporting Guidelines*.

Materials Presented

Agenda Item 8.1	Issues Paper
Agenda Item 8.2	Draft Policy Paper, <i>Process for Considering GFS Reporting Guidelines during Development of IPSASs</i>

Actions Requested

2. The IPSASB is asked to:
 - (a) **Review and approve** a draft policy paper—*Process for Considering GFS Reporting Guidelines during Development of IPSASs* (Agenda Item 8.2)—for inclusion in the 2014 work plan consultation; and
 - (b) **Note** scope to reduce differences between IPSASs and Government Finance Statistics (GFS) reporting guidelines through existing IPSASB projects;
 - (c) **Approve** the proposed new projects for inclusion in the IPSASB's 2014 work program consultation.

Background**IPSASB Review of Responses in June 2013**

1. The Consultation Paper (CP), *IPSASs and Government Finance Statistics Reporting Guidelines* was issued in October 2012 with a deadline for responses of 31 March, 2013. The IPSASB carried out a high level review of responses to this CP in June 2013. (The meeting minutes for the IPSASB's review are provided in Appendix A). The IPSASB asked the Alignment Task Force to carry out further review and analysis. In particular, the Task Force was asked to consider responses received on the table of differences between IPSASs and Government Finance Statistics (GFS) reporting guidelines¹ (Table 2 in the CP, which is included in Appendix C), review those issues to refine Table 2, and bring the refined set of issues back to a future IPSASB meeting, with Task Force recommendations. The Task Force was also asked to develop:
 - (a) A proposal on possible changes to the IPSASB's policies and procedures for inclusion in the 2014 work program consultation;
 - (b) Work program proposals, for inclusion in the 2014 work program consultation, to (i) address differences identified in Table 2, and (ii) address options related to the future of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*; and
 - (c) Proposals on guidance for the management of IPSAS–GFS differences, with proposals addressing (i) guidance on choice of options in IPSASs that provide GFS compliant information, and (ii) consideration of options for development of guidance on developing integrated Charts of Accounts, including options for another body producing this guidance.
2. The Task Force has members from the IPSASB and the statistical community. Members are Ian Carruthers (Chair), Thomas Müller-Marqués Berger, Tim Youngberry, Lindy Bodewig (South African National Treasury), Sagé de Clerck (IMF), John Verrinder (Eurostat), André Schwaller (Swiss Federal Finance Administration), Marta Abilleira (Ministry of Economics, Uruguay), and Bruno Fabrício Ferreira da Rocha (Brazilian National Treasury).

Task Force Progress since the IPSASB's June 2013 Meeting*Task Force Meeting in September 2013*

3. In September 2013 the Task Force met in Toronto, with two members joining by teleconference. Task Force members reviewed the following papers:
 - (a) Draft policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*;
 - (b) Draft guidance paper, *Study 15 IPSASs and Government Finance Statistics Reporting Guidelines: Guidance*, which will support entities' ability to use a single integrated financial information system to generate both IPSAS financial statements and GFS reports; and
 - (c) A discussion paper on scope to address the IPSAS 22 disclosures through use of segment reporting i.e. revisions to IPSAS 18, *Segment Reporting*.

¹ The term "GFS reporting guidelines" refers to the statistical basis of reporting as represented by the 2008 System of National Accounts (SNA), the Government Finance Statistics Manual, the European System of National Accounts and other statistical guidelines related to the SNA.

4. The Task Force identified revisions to the two draft papers, including additional coverage for inclusion in the guidance paper and referred these to staff.
5. The Task Force's discussion of a segment reporting project highlighted issues related to General Government Sector (GGS) disclosures classified as a type of segment reporting. The Task Force concluded that the possibility of replacing IPSAS 22 through a changed approach segment reporting could be explored further.

Task Force Teleconference in November 2013

6. During November the Task Force (a) reviewed a second draft of the policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*, and (b) held a teleconference to discuss work program proposals arising from in-depth analysis of CP responses on the CP's table of differences (Table 2) and set of work program proposals in Section 5.
7. Agenda Item 8.2 reflects the Task Force's teleconference review and a further Task Force review of revisions to the draft policy paper. The work program proposals—discussed under Issue 2 below—reflect the Task Force's detailed review of responses received on the CP and its discussion in November.
8. The Task Force noted that revisions to the draft guidance paper are in progress. The aim is to have a draft guidance paper ready for IPSASB consideration by March 2014.

Background Specific to the Draft Policy Paper (Agenda Item 8.2)

9. The CP proposed that changes to the IPSASB's policies and process could support reduction of differences between IPSASs and GFS reporting guidelines. An SMC (SMC 3) was included, which asked constituents:
 - (a) Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?
 - (b) If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?
10. During their June review of responses IPSASB members noted that respondents had mixed views on the need for systematic changes to policies or procedures. Respondents were concerned that reduction of differences between IPSASs and GFS reporting guidelines should not adversely impact on the achievement of financial reporting objectives, application of the Conceptual Framework and IFRS convergence. The IPSASB asked the Task Force to develop a proposal on possible IPSASB policy and process changes, for inclusion in the 2014 work program consultation.
11. In response to the IPSASB's request the Task Force developed a draft policy paper, Agenda Item 8.2, which proposes changes to the IPSASB's process and policy. The paper reflects the IPSASB's directions that any proposed policy and process changes should not:
 - (a) Impact on either (a) the integrity of the standards and standards-setting process, or (b) the independence of the Board;
 - (b) Unnecessarily complicate the IPSASB's standard setting;
 - (c) Involve significant additional work for staff or the IPSASB; or
 - (d) Imply that IPSASs must converge with GFS reporting guidelines.

12. The draft paper also reflects the IPSASB's commitment to its Conceptual Framework (including the financial reporting objectives) and IFRS convergence.

Overview of Issues

13. This memorandum considers the following issues:
 - (a) *Policy paper*: Review and approve a draft policy paper, Agenda Item 8.2, which proposes changes to the IPSASB's process and policy to take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines; and
 - (b) *Work program proposals*: The IPSASB is asked to (i) note existing projects with scope to reduce differences, and (ii) consider new project proposals for inclusion in its 2014 work program consultation.

Key Issues

Issue 1 Draft Policy Paper—Agenda Item 8.2

14. The draft policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (Agenda Item 8.2), proposes a more systematic approach to the IPSASB's consideration of ways to reduce differences between IPSASs and GFS reporting guidelines. It addresses both the IPSASB's work program discussions and its development of IPSASs.
15. The paper's proposed approach aims to support the IPSASB's present policy with respect to consideration of differences rather than change that policy. The *Preface to the IPSASB's Handbook of International Public Sector Accounting Standards*, states that, in pursuit of its overall objective, the IPSASB "...supports...the convergence of accounting and statistical bases of financial reporting where appropriate." The proposed approach also aims to reflect (a) the IPSASB's directions to the Task Force (see paragraph 10 above), and (b) the IPSASB's commitment to its Conceptual Framework (including the financial reporting objectives) and IFRS convergence.
16. The draft paper includes a proposal that the focus of the IPSASB's biennial improvements projects be widened to also include reduction of differences between IPSASs and GFS reporting guidelines. This would support the IPSASB's ability to address particular types of differences on a timely basis. As the paper explains, the type of differences for inclusion in a biennial improvements project would have to be minor and appropriate for IPSASs.

Action Requested:

1. Members are asked to:
 - (a) Review and **approve** the draft policy paper, Agenda Item 8.2, for inclusion in the IPSASB's 2014 work program consultation; and
 - (b) **Discuss** the proposal, included in the draft policy paper, that the focus of the IPSASB's biennial improvements projects be widened to include reduction of differences between IPSASs and GFS reporting guidelines, so long as the differences are minor and appropriate for IPSASs.

Issue 2 Existing IPSASB Projects and New Work Program Proposals

17. As requested by the IPSASB the Task Force carried out an in-depth review of the responses received on the CP. Staff identified all responses received on (a) the differences in Table 2 of the CP and their status, (b) work program proposals with respect to addressing differences in Section 5 of the CP, and (c) additional differences or issues, beyond those identified in Table 2, that respondents considered should be addressed. These were grouped in terms of (a) whether the issue had been identified in the CP or was a new issue, (b) major subgroups related to individual standards (e.g. all financial instruments related issues were grouped together), (c) linkage to existing projects, and (d) new project proposals.
18. A short list, focused on recommended actions related to the IPSASB 2014 work program proposals, was considered by the Task Force along with the more detailed groupings of comments with actions identified.

Existing Projects

19. The Task Force's review of responses identified that many of the further issues raised by respondents relate to existing projects, including projects that are about to begin. Issues were identified with respect to the following existing projects:
 - (a) Revisions of IPSASs 6-8 (Interests in Other Entities, EDs 48-52);
 - (b) Financial Instruments—Public Sector Specific;
 - (c) Emissions Trading; and
 - (d) Social Benefits.
20. An initial list of issues linked to each of these projects is included in Appendix B. The Task Force notes that during further assessment of some of these issues additional topics may be identified for consideration in the relevant project, particularly in the area of public sector financial instruments. The Task Force's discussion of issues also highlighted that further issues may emerge during the course of each project.
21. No new project is indicated by this set of issues. Instead the list highlights the importance of coordination between the Task Force and project staff responsible for each of these existing projects.
22. Alignment project staff has been coordinating with staff linked to these other projects. The staff involved have been alerted to issues related to differences (or potential differences) between IPSASs and GFS reporting guidelines. It is proposed that Alignment project staff continue to (a) provide information, and (b) coordinate between project staff and Task Force members, when necessary, with the aim of ensuring that information and expertise is shared. In addition, given the number of projects involved, a simple system, such as a table, to track communication and progress on issues could be introduced. This would be linked to on-going updating of the table of differences, as proposed in the draft policy paper.

Alignment Project and Proposed Guidance to Address Differences

23. The "Alignment of IPSASs and Public Sector Reporting Guidance" project is an existing IPSASB project which, as noted above, is already developing guidance on the management of IPSAS–GFS

differences. The Task Force's detailed review of responses on work program proposals identified the following difference, which could be addressed through the development of implementation guidance:

- (a) Defense weapons—guidance on requirements with respect to their capitalization, classification and measurement (expense versus capitalize, and inventory versus property, plant and equipment), Issue B5 in Table 2.
24. Some respondents were concerned by the CP's proposal that Issue B5 be addressed through standards level action, on the basis that it is not appropriate for the IPSASB to include guidance specific to particular categories of property, plant and equipment or inventory in IPSASs. The generic issue of IPSASs' as principles based standards rather than detailed rules was raised in this context. On this basis the Task Force proposes that this issue be addressed by providing guidance for inclusion in *Study 15 IPSASs and Government Finance Statistics Reporting Guidelines: Guidance*. During development of the guidance the Task Force could consider whether implementation guidance could address any other differences in practice, which arise through the application of IPSASs, even though the applicable IPSASs are aligned with the GFS reporting guidelines.
25. The Task Force also considered whether these issues should be addressed either through (a) guidance in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*, or (b) additional application guidance in the relevant standards. The Task Force's view is that Study 14 is not the appropriate location because it focuses on the transition to accrual basis accounting, while many of the users of such guidance will already have made their transition to accrual basis accounting. Development of guidance for inclusion in the proposed "Study 15" was viewed as providing a more timely response to issues that can be addressed without revisions to standards. During development of guidance on these issues, minor changes to the relevant standards that would clarify their intended meaning may be identified, in which case, depending on the Board's views on Issue 1 in this paper, these could be referred for inclusion in an Improvements Project.
26. Category D of Table 2 in the CP listed differences that would need to be managed. Some respondents were concerned to ensure that guidance on how to manage particular issues in that category would be provided. The issues highlighted by respondents were D6, D7, D9, D10, D11, and D12. Respondents identified two further topics on which management guidance should be provided:
- (a) Cash flow presentation differences (a detailed explanation of differences was provided); and,
 - (b) Non-recognition of items where there is no counterparty (e.g. certain provisions) and recognition of government assets created by sovereign power (e.g. water rights and emission spectrum).
27. These comments will be considered during development of guidance on managing differences.

Proposals for New Projects—2014 Work Program Consultation

28. Based on the proposals in the CP and its review of CP responses the Task Force proposes that the following new projects be included in the IPSASB's 2014 work program consultation:
- (a) *Segment reporting*: Project to revise IPSAS 18, *Segment Reporting*, which would aim to enhance the usefulness of segment reporting for users of public sector GPFs, taking into

account the experience that jurisdictions have had with this standard. The project could further explore scope to address IPSAS 22's disclosures on the General Government Sector, Public Corporations Sector, and sub-sectors, as defined in the statistical basis of reporting, through segment reporting. The Task Force's discussions on this point could be used as a starting point.

- (b) *Measurement*: Project to revise measurement in IPSASs, with a view to applying a consistent, conceptually based approach to measurement across the suite of standards. This project would be conditional on the outcome of Phase 3 of the Conceptual Framework Project, which will identify concepts applicable to measurement in the financial statements. Depending on the outcome of Phase 3, this project could include scope to (a) allow measurement at current values and (b) improve the consistency and articulation of current value measurements, including terminology used, treatment of transaction costs, and consistency with international valuation standards and GFS reporting guidelines.
- (c) *Intangible Assets—Public Sector Specific*: The CP had classified intangibles, including R&D, as resolved (Issue A8), while acknowledging that there was scope for GFS reporting guidelines to provide additional specification of its treatment of R&D (Issue C6) to ensure that the capitalization of such costs is aligned with the IPSAS treatment. Responses received highlighted the view that differences remain with respect to the treatment of costs related to research and development (R&D). The Task Force noted that (a) governments' investment of research has different aims from those in the private sector and this could be considered a public sector specific difference such that capitalization prior to development is justifiable, and (b) the IPSASB acknowledged during development of IPSAS 31, *Intangible Assets*, that there would need to be a project looking at public sector specific issues related to intangibles, notably those arising from sovereign powers such as permits, concessions and licenses.

29. The Task Force notes a further two possible projects for IPSASB members' consideration. A respondent recommended the development of an IPSAS equivalent for the following two IFRSs, on the basis that the existence of an aligned IFRS, which can be applied through application of the accounting policy choice factors identified in IPSAS 3, does not allow for the possibility of a national standard that is not aligned:

- (a) IFRS 2, *Share Based Payments* (Issue A3),
- (b) IFRS 6, *Exploration for and Evaluation of Mineral Resources* (Issue C2).

Action Requested:

2. Members are asked to:

- (a) **Note** scope to address differences between IPSASs and GFS reporting guidelines through existing projects; and,
- (b) **Approve** the proposed new projects for inclusion in the IPSASB's 2014 work program consultation.

APPENDIX A

EXCERPT—JUNE 2013 IPSASB MEETING MINUTES

10. IPSASs and GFS Reporting Guidelines (Agenda Item 10)

- A1. The IPSASB carried out a high level review of responses received on the Consultation Paper (CP), IPSASs and Government Finance Statistics Reporting Guidelines. The review began with discussion of possible reasons for the low number of responses to the CP (twenty-five), particularly the low number of responses from statistical offices. Some potential respondents had not provided a response on the basis that they are not experts on government statistics guidelines. It was noted that some of the responses from governments' accounting or finance departments had also involved consultation with the statistical office, so that the response reflected both perspectives.

Specific Differences between IPSASs and GFS Reporting Guidelines

- A2. The IPSASB agreed with the staff and Task Force chair's recommendation that responses received on the table of differences between IPSASs and GFS reporting guidelines (Table 2 in the CP) should be considered in depth by the Task Force. The Task Force will review those issues in order to refine Table 2, and then bring the refined set of issues back to a future IPSASB meeting, with Task Force recommendations.
- A3. In addition to differences susceptible to resolution, Table 2 also includes past differences which are classified as resolved. Members discussed the reasons that some respondents disagreed with Table 2's list of resolved differences. Members' views included that: (a) existence of a GFS-aligned option does mean resolution, although from both the statistician's and accounting standard setter's perspective retention of options in standards/guidelines is not considered desirable in the longer term; (b) the IPSASB should not attempt to address differences in practice that exist below the level of standards, when alignment exists between IPSASs and GFS guidelines; and, (c) Table 2 may overstate the amount of resolution, for example with respect to measurement of financial instruments.

Guidance on Options and Chart of Accounts Development

- A4. Members noted respondents' support for different types of guidance proposed in the CP. They then discussed the need to consider guidance within the context of competing priorities and staff resources. The Board's IPSAS implementation and adoption efforts would be enhanced by guidance on (a) choice of options within IPSASs, and (b) how to address GFS needs as well when developing an IPSAS-based Chart of Accounts. Members noted that respondents agreed with the CP's view that attempting to develop a global Chart of Accounts would not be beneficial. There were different views on whether this type of guidance falls within the IPSASB's mandate, and whether it should be a priority for staff resources. The possibility of another body producing this guidance should be explored. It was noted that the IMF's Fiscal Affairs Department had started work in this area, and then postponed it while the IPSASB project proceeded. The focus of such guidance would need to be kept narrow. The IPSASB concluded that the Task Force should be asked to develop proposals on guidance (choice of options, and development of integrated Charts of Accounts), for the IPSASB's consideration.

Changes to Policies and Procedures

- A5. The CP listed possible changes to the IPSASB's policies and procedures to make consideration of GFS difference reductions more systematic. Members noted that respondents had mixed views on the importance of the reduction of differences between IPSASs and GFS Reporting Guidelines and the need for systematic changes to policies or procedures. An overarching concern of many respondents was that achievement of financial reporting objectives should not adversely affect higher considerations, such as application of the Conceptual Framework or IFRS convergence.
- A6. The IPSASB agreed that the Task Force should be asked to develop a proposal on possible changes, for inclusion in the 2014 work plan consultation. Members were agreed that any policy and process changes should not impact on either (a) the integrity of the standards and standards-setting process, or (b) the independence of the Board. Changes should not unnecessarily complicate the IPSASB's standard setting. Changes that would involve significant additional work for staff or the IPSASB, or those that could imply that IPSASs must converge with GFS reporting guidelines should not be pursued. Changes such as including additional information included in Bases for Conclusions or in EDs could help to educate constituents who do not understand the extent of overlap and the few differences. Eurostat, for example, provides comparison in documents that it produces in order to educate the statistical community about the significant overlap between IPSAS requirements and the ESA reporting guidelines. In addition to possible process changes, it will be important to continue working cooperatively with the statistical community and consider future opportunities for this.

Future of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*

- A7. Members noted that respondents' views on the future of IPSAS 22 were divided between the three options in the CP—withdraw, replace and revise—with relatively little support for revision. Two respondents commented that more information about IPSAS 22's usage should be gathered, before making a decision to withdraw or replace the standard. One respondent commented that, as a first step, IPSAS 22 should be made mandatory, to increase its application. Members noted that only one country, Costa Rica, has applied IPSAS 22. Many of the respondents seemed to be commenting in the abstract, rather than through experience either with IPSAS 22 or with reporting General Government Sector (GGS) information. The underlying issue is how to assess users' needs for this type of information.
- A8. Members noted that IPSAS 22's Basis for Conclusions explains that the IPSASB's view, when IPSAS 22 was developed, was that the benefits of applying IPSAS 22 might not exceed the costs for those governments that do not regularly report this information. On that basis IPSAS 22 was not made mandatory. (Entities are not required to disclose GGS information along with their financial statements. But entities must apply IPSAS 22, if they choose to disclose GGS information along with their financial statements.) Some Members supported development of guidance on reconciliations between GGS totals and GPFR totals. Reconciliations provide GPFR users with useful information. Members noted that the discussion of IPSASs 6 to 8, later in the meeting, would also raise issues with respect to IPSAS 22's future, because of its linkage to consolidated financial information and reporting on sectors. (The later discussion identified a potential link with a review of IPSAS 18, *Segment Reporting*).
- A9. In conclusion, the Task Force and staff were asked to give further consideration to the IPSAS 22 options, with a view to potential inclusion in the 2014 work plan consultation.

Guidance on Options in Study 14

A10. The CP included the IPSASB's preliminary view that the IPSASB should amend Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines. Members noted that there was good support for such guidance, although comments included a view that Study 14 was not the right place for such guidance. The IPSASB decided that, consistent with support for IPSAS adoption and implementation, the Task Force should be asked to: (a) develop a short document summarizing, on an IPSAS by IPSAS basis, where there are choices in treatment in existing standards, and which should be adopted in order to provide GFS compliant information as well; and, (b) consider further the best method for publication of the guidance for future discussion with the Board.

Next Steps

- A11. A summary of next steps for the project was provided. These are to carry out further review and analysis in order to:
- (a) Refine Table 2;
 - (b) Develop proposals on guidance (choice of options, and development of integrated Charts of Accounts); and
 - (c) Develop proposals for the IPSASB's 2014 work plan consultation, which will cover GFS difference reductions, the IPSASB's approach to considering options that reduce differences during development of IPSASs, and the future of IPSAS 22.
- A12. The timetable for this will be considered by the Task Force, noting the need to (i) keep momentum on review of responses (Table 2 issues); (ii) allow for competing priorities for Task Force members, particularly Members involved in TBGs that provide input into other papers for the September and December 2013 meetings.

APPENDIX B

EXISTING PROJECTS—SCOPE TO REDUCE DIFFERENCES BETWEEN IPSASs AND GFS REPORTING GUIDELINES

Revisions of IPSASs 6-8 (Interests in Other Entities, EDs 48-52)

- B1. The CP identified that there was scope to reduce differences with respect to the definition of control. This was considered by the IPSASB during development of ED49, Consolidation. Table 2 will be updated for this consideration and its outcome.
- B2. Responses to the CP identified a list of specific issues that relate to accounting for interests in entities. The Task Force will further review these issues and, where appropriate, ask the IPSASB to refer them to the project staff involved for their consideration during consultation and development of the final IPSASs.

Financial Instruments—Public Sector Specific

- B3. Responses to the CP identified a list of specific issues that relate to accounting for financial instruments. The Task Force will further review these issues and, where appropriate, refer them to the project staff involved for their consideration during consultation and development of the final IPSASs. Based on differences already identified in the CP and an initial review of respondents' feedback, the Task Force recommends that the IPSASB project staff consider scope to reduce differences between IPSASs and GFS reporting guidelines, particularly with respect to the following issues:
- Possible differences with respect to recognition and derecognition of financial instruments, where further investigation is required to ascertain extent of differences (Table 2, Issue A7)
 - Currency on issue/seigniorage (Table 2, Issue B2)
 - Subscriptions to international organisations (Table 2, Issue B3)
 - Transactions between the central bank and government entities (Table 2, Issue D11)
 - Additional issues raised by responses to the CP, where further review by the Task force is underway.

Emissions Trading Project

- B4. Consider scope to align IPSASs with the GFS reporting guidelines on emissions trading, which have been developed as a specific follow-up project under SNA 2008. The main issue here is how to account for government issues and/or auctions of allowances (also called permits), particular to what extent should these be recognized. (Note the views of two respondents that this issue should be addressed to reduce differences.)

Social Benefits

- B5. Consider scope to align IPSASs with GFS reporting guidelines. (Note respondent's view that this issue could be addressed to reduce differences.)

APPENDIX C

TABLE 2 FROM CONSULTATION PAPER—ISSUES FROM 2005 REPORT — RESOLUTION AND PROPOSALS FOR CONSIDERATION

A. Issue resolved		
	<i>Issue</i>	<i>Resolution</i>
A1	GGs reporting	IPSAS 22 (a) encourages disclosure of information about the general government sector, (b) specifies requirements when a government elects to make such disclosures, and (c) requires a government's investment in public corporations to be recognized at the carrying amount of investees' net assets. (Also see B1 and D1).
A2	Investments in unquoted shares— measurement	IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i> requires fair value where there is a reliable measure, otherwise cost is used. The 2008 SNA adopts a “current market price” basis across all assets.
A3	Employee stock options	2008 SNA (paragraph 11.125) clarified employee stock options guidance, so that there is no difference between IPSASs ² and the SNA.
A4	Non cash-generating assets, including heritage assets— measurement and recognition	2008 SNA has aligned guidance on the valuation of non-cash-generating assets. The revaluation options in IPSAS 16, <i>Investment Property</i> , IPSAS 17, <i>Property, Plant & Equipment</i> and IPSAS 31, <i>Intangible Assets</i> are aligned with the SNA's use of current market price. IPSAS 17 and IPSAS 31 options to recognize heritage assets allow entities to choose a treatment that is the same as the SNA's recognition of heritage assets.
A5	Borrowing costs	IPSAS 5, <i>Borrowing Costs</i> , has the 2008 SNA approach of expensing borrowing costs as its “benchmark treatment.”
A6	Defense weapons— capitalization and classification	2008 SNA changes have implemented recommendations on capitalization and classification, from the 2005 report. More guidance is needed to remove differences that arise through different interpretations of IPSASs, and measurement differences may still remain for long-lived, specialized assets. These measurement differences are not specific to defense weapons. (Also see Issues B5, B6, and C1).

² IPSASs do not directly address accounting for employee stock options, but it is addressed indirectly through IPSAS requirements with respect to accounting policy choice, which mean that the applicable IFRS will generally be a first choice for accounting treatment where no IPSAS applies.

A7	Recognition and derecognition of financial instruments	IPSAS 29's recognition and derecognition requirements mirror those of IAS 39, <i>Financial Instruments: Recognition and Measurement</i> . IPSAS 28, <i>Financial Instruments: Presentation</i> adopted the requirements of the former IPSAS 15, <i>Financial Instruments: Disclosure and Presentation</i> on offsetting. The 2008 SNA requirements in respect of debt defeasance have not changed, but have been elaborated. The IMF's <i>Public Sector Debt Statistics Guide</i> and Eurostat's <i>Manual on Government Deficit and Debt</i> provide detailed clarifications on debt assumptions.
A8	Costs associated with R&D and other intangible assets	The IPSASB issued IPSAS 31 in 2010. The 2008 SNA revisions are aligned with IAS 38, <i>Intangible Assets</i> , with which IPSAS 31 is converged. (Also see C6).
B. Opportunities to reduce differences: IPSASs (<i>Discussed further in Section 5</i>).		
	<i>Issue</i>	<i>For consideration</i>
B1	Reporting entity definition	Consider, as part of the IPSASs 6–8 revision project, whether there is scope to remove differences between the narrative on “control” in IPSAS 6 and the control indicators for the SNA definition. ³
B2	Currency on issue/seigniorage	Consider whether topic-specific coverage could be developed as part of the public sector-specific financial instruments project.
B3	Subscriptions to international organizations	
B4	Inventory measurement	SNA requires current market values. IPSAS 12, <i>Inventories</i> , generally requires “the lower of cost and net realizable value.” Consider whether there is scope to address this difference.
B5	Defense weapons—capitalization and classification	More detailed guidance is needed. Consider whether development of guidance for inclusion in IPSAS 17 should be included within the IPSASB's work program.
B6	Measurement of assets, liabilities and net assets/equity	Subject to development of the IPSASB Conceptual Framework, consider whether there may be scope to increase the use of current value measurement within IPSASs.
B7	Transaction costs —Costs of disposing of nonfinancial and financial assets	SNA expenses all asset disposal costs related to assets, while IPSAS requires such costs to be expensed in some cases, and capitalized in others. Subject to development of the IPSASB Conceptual Framework, consider whether there is scope to address differences.

³ The IPSASB's IPSAS 6 – 8 project is considering possible revisions to three related IPSASs, IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interest in Joint Ventures*.

B8	Financial statements — presentation, including classification, and aggregates	Subject to development of the IPSASB Conceptual Framework, consider whether a project to review presentation that could reduce differences with GFS should be included in the IPSASB's work program.
B9	Investments in unquoted shares —Presentation of gains/losses arising from remeasurements	Subject to development of the IPSASB Conceptual Framework, this issue could be considered as part of the project proposed for B8.
C. Opportunities to reduce differences: GFS reporting guidelines (<i>Discussed further in Section 6</i>).		
C1	Measurement of assets, liabilities, and net assets/equity	Consider whether discussions could be initiated with key groups to improve measurement consistency, then address through guidance at the detailed level.
C2	Extractive industries—exploration and evaluation; development and production	Consider whether there is scope to clarify statistical guidance. For example, GFSM 2012 is expected to clarify some applicable treatment, based on the 2008 SNA treatment of contract leases and licenses.
C3	Decommissioning/restoration costs	The 2008 SNA (paragraphs 10.51-10.55) already includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. Consider whether revisions to related GFS guidelines to reflect the 2008 SNA with supporting detail consistent with IPSAS 17 could further reduce differences.
C4	Public-private partnerships (PPPs) (e.g., BOOT schemes)	The SNA has this issue on its research agenda. Consider whether there is scope to align with IPSAS 32, <i>Service Concession Arrangements: Grantor</i> .
C5	Subscriptions to international organizations	Eurostat has completed guidance on subscriptions to multilateral development banks in the most recent revisions to its <i>Manual on Government Deficit and Debt</i> . If the IPSASB addresses this topic (see B3 above) the statistical reporting community could consider whether the approach developed, if different, could be adopted for statistical reporting guidelines.
C6	Costs associated with R&D and other intangible assets	Consider whether revisions to statistical guidance, for example further guidance in the GFSM 2012, could address some possible differences in practice. (See D12.)
C7	Low-interest and interest-free loans	The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is trying to resolve this issue. Consider whether work in this area could reduce differences.

D. Differences that will need to be managed through systems design, data collection, and/or mapping (<i>Discussed further in Section 4</i>).		
	<i>Issue</i>	<i>Management of Differences</i>
D1	Reporting entity definition	The basic conceptual difference remains and will need to be managed, through identification of data that relates to the GGS. (Scope to remove differences with respect to indicators of control is addressed in B1).
D2	Recognition criteria	Management of differences generally involves adjusting IPSAS values to reach an SNA result. Additional disclosures in IPSASs and/or CoA design can facilitate production of GFS reports from IPSAS data, by identifying items for which adjustments will be needed.
D3	Measurement of assets, liabilities and net assets/equity, particularly fair value versus historic cost	Choice of fair value options within IPSASs and the use of disclosed fair values, where IPSAS requires such disclosures or valuations specifically for statistical reporting, are ways to address these differences.
D4	Financial statements—presentation, including classification, and aggregates	There is scope to manage presentation differences through mapping/reconciling amounts from the IPSAS financial statements to the appropriate SNA statements.
D5	Provisions arising from constructive obligations	Additional disclosures in IPSASs and/or Chart of Accounts design facilitate adjustment of amounts for production of SNA reports.
D6	Prior period adjustments/back casting—correction of errors	Management of this issue is needed to provide the time series data that GFS needs. For example, where IPSASs require adjustments and corrections in disclosed comparative periods, statistical accountants apply back casting through the time series.
D7	Nonperforming loans	Difference expected to remain, and will need to be managed.
D8	Biological assets	SNA generally classifies animals and plants for one-time use as inventories, while IPSAS 27, <i>Agriculture</i> would classify these assets as fixed assets, until they are harvested/slaughtered, at which point they become “agricultural produce,” which is classified as inventory. To facilitate management of this classification difference IPSAS 27 requires disclosure of bearer and consumable biological assets in the notes to the statements so that an entity can reclassify its consumable biological assets as inventory when preparing its statistical report.
D9	Net assets/equity	2008 SNA continues to treat equity as a liability. This difference is expected to remain, and will need to be managed.

D10	Contributions from owners for commercial government operations	IPSASs and SNA agree conceptually on capital injections and both make identification by reference to economic substance rather than legal form. However the application of IPSAS and GFS guidelines may, in practice, result in different conclusions about the substance of a transaction. This difference is expected to remain and will need to be managed.
D11	Transactions between the Central Bank and government entities.	Complexities in terms of (a) transactions between the Central Bank, the national government, and other government entities, and (b) a wider set of issues related to the Central Bank, will need to be identified and appropriately addressed.
D12	Costs associated with R&D and other intangible assets	Differences in terms of the definition of “research” have not been resolved. To the extent that definitional differences flow through into recognition differences, these will need to be managed.

DRAFT IPSASB Policy Paper

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International Public Sector Accounting Standards Board

DRAFT Process for Considering GFS Reporting Guidelines during Development of IPSASs



This document was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and guidance and by facilitating their adoption and implementation, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector financial reporting and financial management.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

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Process for Considering GFS Reporting Guidelines During Development of IPSASs

Introduction

1. The aim of this document is to set out the IPSASB's process for considering Government Finance Statistics (GFS) reporting guidelines¹ during the development of International Public Sector Accounting Standards (IPSASs).
2. The process describes how the IPSASB will consider scope to reduce differences between IPSASs and GFS reporting guidelines during:
 - (a) Development of its work plan;
 - (b) Development of new IPSASs; and
 - (c) Revisions to existing IPSASs.
3. Following this process during the revision and development of IPSASs will give effect to the IPSASB's view that:
 - (a) Unnecessary differences between GFS reporting guidelines and IPSASs should be avoided; and,
 - (b) The reduction of unnecessary differences is an important factor in the review and development of IPSASs.
4. This process aims to address both existing differences and possible future differences, which could arise through the development of a new IPSAS to address a previously unaddressed financial reporting topic, or revisions to an existing IPSAS.

Process Enhancement

5. This process will be regularly assessed to determine if any changes are needed for its enhancement.

Professional Judgment

6. The IPSASB uses professional judgment in the development of new standards and improvements to existing standards. The IPSASB application of professional judgment occurs during (a) development of a consultation paper and/or an exposure draft, and (b) consideration of responses received during consultation, leading to the issuance of a final standard. As part of the IPSASB's established due process, reasons for the IPSASB's conclusions are documented in the related Basis for Conclusions.

IPSASB Support for Convergence with Statistical Bases of Financial Reporting

7. The IPSASB's support for reduction of differences is expressed in the Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*, which states the IPSASB's objective, as follows:

¹ The overarching standards for macroeconomic statistics are set out in the *System of National Accounts* (SNA). Internationally recognized macroeconomic statistical methodologies are harmonized with the SNA to the extent possible, while remaining consistent with their own specific objectives. GFS reporting guidelines include the European Union (EU)'s legislated rules for national accounts—the European System of Accounts (ESA)—and the IMF's Government Finance Statistics Manual (GFSM), which is the key source of guidance for non-EU government finance statistics.

“The objective of the International Public Sector Accounting Standards Board (IPSASB) is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports. This is intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making.”

8. The Preface then highlights IPSASB support for the reduction of differences—termed “convergence of accounting and statistical bases of financial reporting”—as one part of the IPSASB’s pursuit of its objective:

“In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications.” [Emphasis added.]

The Role of the IPSASB’s Conceptual Framework and IFRS Convergence

9. The IPSASB’s Conceptual Framework is fundamental to its standards development. IPSAS related proposals that reduce differences between IPSASs and GFS reporting guidelines will be reviewed to ensure that they are consistent with the Conceptual Framework—see paragraph 12 below.
10. The IPSASB’s “*Process for Reviewing and Modifying IASB Documents*” sets out the process that the IPSASB follows when considering International Accounting Standards Board (IASB) documents for convergence, including determining whether public sector issues warrant departures from the IASB document. Step 1 of that process includes consistency with the statistical bases as one factor for consideration when making decisions. This document is intended to complement and support that process, rather than conflict with it in any way.

Scope to Address Differences

11. There is considerable overlap between IPSASs and GFS reporting guidelines. Both reporting frameworks are concerned with (a) financial, accrual-based information, (b) a government’s assets, liabilities, revenue, and expenses, and (c) comprehensive information on cash flows. Because of this overlap, there is scope to reduce differences while remaining consistent with both the Conceptual Framework and International Financial Reporting Standards (IFRS) requirements.
12. GFS reporting guidelines and IPSASs have different objectives for the two sets of financial information produced. Although the two sets of financial information necessary to meet these different objectives have many similarities, the different objectives do result in some fundamental differences on how, what and where information is reported. In considering scope to reduce differences the IPSASB will remain true to the objectives of financial reporting². Where differences appear to warrant referral to the statistical community for its consideration, the IPSASB recognizes that the statistical community’s consideration of issues will be in light of the objectives of the GFS reporting framework³.

² The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports (GPFRs) for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”). [Paragraph 2.1, *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.]

³ GFS reports are used to (a) analyze fiscal policy options, make policy, and evaluate the impact of fiscal policies, (b) determine the impact on the economy, and (c) compare fiscal outcomes nationally and internationally. The focus is on evaluating the impact of the general government and public sector on the economy, and the influence of government on other sectors of the economy. The GFS reporting framework was developed specifically for public sector input to other macroeconomic statistics, although a range of

Tracking Issues–Table of Differences Updated For Changes

13. A table of the main differences between IPSASs and GFS reporting guidelines will be maintained to facilitate the work plan consideration described below. The table will include assessments of whether differences should be resolved through changes in IPSASs or changes in the GFS reporting guidelines. The table will be updated as necessary, on an on-going basis. Updating could be to reflect progress made on differences or to include further differences that have been identified.

IPSASB Work Plan and Reduction of Differences

14. The IPSASB will consider the reduction of differences between IPSASs and GFS reporting guidelines during development of its work plan. The IPSASB's consideration will include appropriate responses to a difference, one of which could be referral to the statistical community for its consideration of whether a difference can be resolved through changes to the GFS reporting guidelines.
15. The IPSASB will gain input from its IMF and Eurostat Observers and from IPSASB Members in order to identify:
 - (a) Which proposed projects have the potential to reduce differences;
 - (b) Possible other projects with potential to reduce differences;
 - (c) Scope to address differences within existing projects and/or the biennial improvements project; and,
 - (d) Differences that could be referred to the statistical community for consideration of scope to address differences through changes to the GFS reporting guidelines.
16. The IPSASB notes that GFS reporting guidelines aim to be consistent with the SNA. The SNA is under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Community (EC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Revision to the SNA is a major endeavor. Scope to address differences through changes to the GFS reporting guidelines largely depends on the changes identified *not* adversely affecting the guidelines' consistency with the SNA. Revisions to the SNA may be possible in the longer term.

Biennial Improvements Projects

17. Differences that can be resolved through relatively minor revisions to existing IPSASs may be considered for inclusion in one of the IPSASB's biennial improvements projects. This would only be considered for proposed revisions that are both minor and appropriate for IPSASs. This could be, for example, an amendment to clarify an IPSAS so that its application is consistent with the IPSASB's intention.

IPSAS Projects and Reduction of Differences

18. During the course of each IPSAS project IPSASB technical staff and the IPSASB will consider whether there is scope for the project to address differences between IPSASs and GFS reporting guidelines. Although the table of main differences (see paragraph 13) will be the starting point for

this consideration, staff will also consider whether there are differences not captured in that table.

19. Differences identified will then be reviewed to determine whether standards level action is appropriate. (This is discussed below.) Where such differences exist staff will ensure that they are brought to the IPSASB's attention through identification in the appropriate IPSASB meeting paper(s).
20. Project staff will also consider the need to avoid introducing new differences during either (a) revisions to an existing IPSAS, or (b) development of an IPSAS to address topics that have not previously been addressed by an IPSAS. New differences could potentially be introduced, for example, when (a) removal of a GFS-aligned option in an IPSAS is considered, or (b) a new IPSAS is developed for a topic for which GFS reporting guidelines already exist. Where a potential new difference is identified, the project staff will ensure that this is brought to the IPSASB's attention through identification in the appropriate IPSASB meeting paper(s).

Factors to Consider

21. Whether or not an IPSAS project removes a difference will depend on the following factors:
 - (a) Whether or not the difference is a fundamental difference (discussed below);
 - (b) The extent to which the GFS treatment is consistent with
 - (i) The Conceptual Framework,
 - (ii) Existing IPSASs, and,
 - (iii) IFRS convergence;
 - (c) The IPSASB's consideration of the benefits to be gained from removing the difference and the appropriateness of the proposed IPSAS treatment;
 - (d) The IPSASB's consideration of feedback from constituents; and,
 - (e) The IPSASB's assessment of whether the difference should be addressed through an IPSAS or whether some other response would be more appropriate.
22. In considering the factors listed in paragraph 21 a case-by-case approach will be applied. This recognizes that the relative importance of these factors can vary depending on the issue under consideration.
23. With respect to point (e), one possible other response is for the IPSASB to refer a difference to the statistical community for consideration of whether it can be addressed through changes to the GFS reporting guidelines. Before making such a referral the IPSASB will gain input from its IMF and Eurostat Observers to inform consideration of the appropriateness of such a response. In some cases the most appropriate response to a difference may be to ensure that guidance is available on how to manage the difference.

Some Differences May Not Require Standards Level Consideration

24. "Fundamental differences", such as the different reporting entity under GFS, arise from underlying conceptual differences that cannot be resolved through changes to either IPSASs or GFS reporting guidelines. These differences are expected to continue and will need to be managed. Fundamental differences generally do not indicate a need for standards level action.

25. An important aim of the analysis of differences is to support public sector entities' ability to use a single integrated financial information system to generate both IPSAS financial statements and GFS reports⁴. Consistent with this aim, differences are classified in terms of whether they (a) can be managed either through choice of accounting policy option or systems design, or (b) can be addressed through changes in either IPSASs or GFS reporting guidelines. Some problematic differences arise from the way that a standard or guideline is applied, rather than in the standards or guidelines themselves.
26. Where alternative treatments (options) in an IPSAS allow a preparer to choose an option that is aligned with GFS reporting guidelines, no amendment to the IPSAS is necessary in order to align the treatments available under the two reporting frameworks. (As section 7 below notes, guidance that identifies those GFS-aligned options can help preparers to manage differences.)
27. In the medium term non-fundamental differences which can be managed may be addressed through provision of guidance on how to manage them. However they should still be noted as differences and, in the longer term, there should be consideration of opportunities to address them through changes either to IPSASs or GFS reporting guidelines.
28. Other differences may not be high priorities for standards level action, because they can be addressed in other ways. Differences related to information location or organization can be addressed through the design of an entity's information system. Appropriate classification of data allows location and organization appropriate to both IPSAS financial statements and GFS reporting guidelines. Terminology differences do not involve differences of substance, and can be addressed through knowledge sufficient for preparers to translate terms from one reporting framework into those used in the other framework. This is likely to involve financial accountants working with their statistician colleagues to clarify the meaning of different terms.

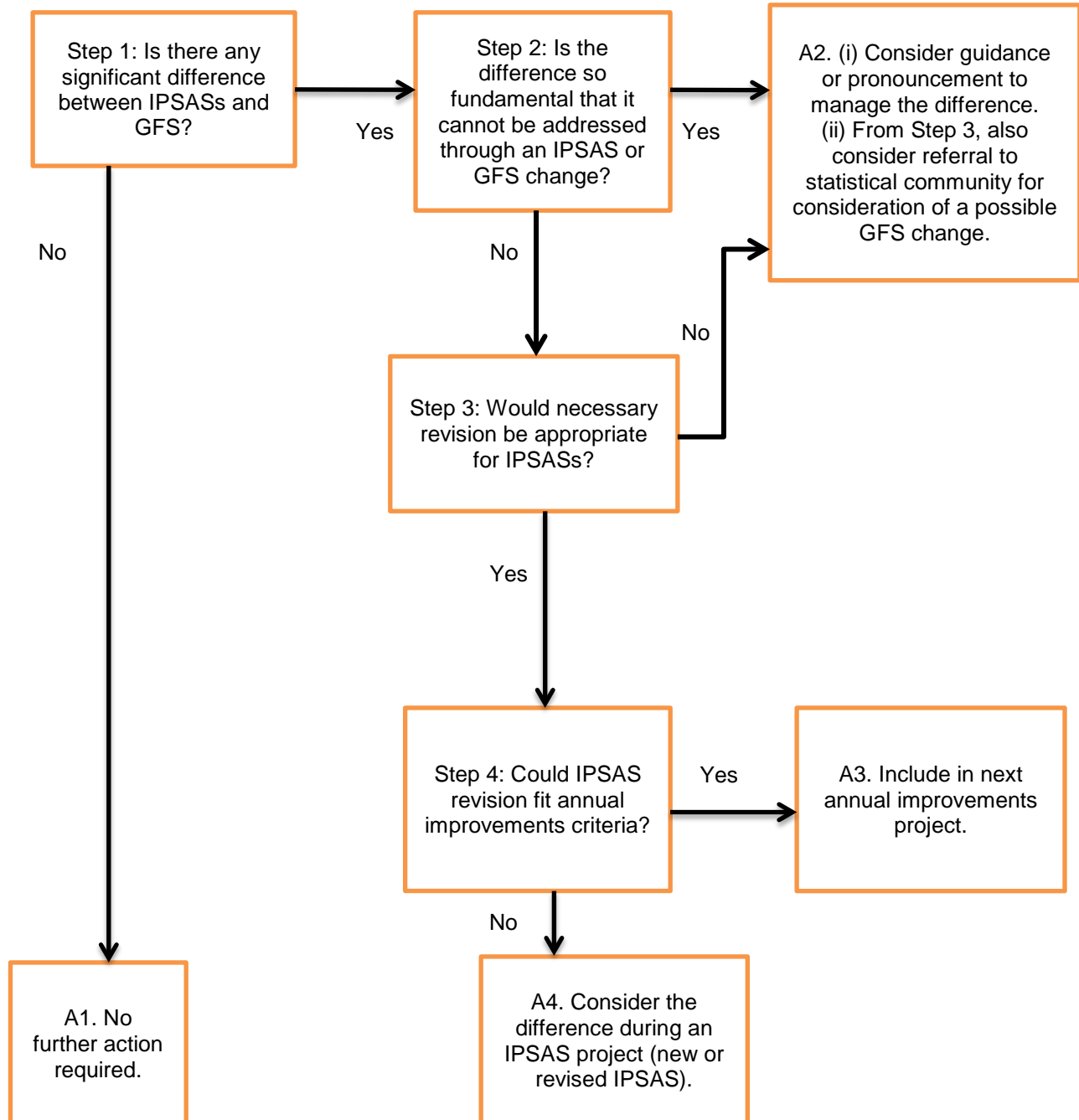
Role of Guidance

29. Guidance may help preparers to manage differences related to (a) information location and organization, (b) application of standards, (c) terminology, and (d) fundamental differences. Guidance can also help preparers to appreciate which IPSAS accounting treatments better support GFS report preparation, so that they can take that into account when choosing accounting policies. Diagram 1 identifies situations in which guidance may be appropriate, but this document does not otherwise address guidance because its focus is on IPSAS development.

⁴ Benefits from such an integrated financial information system include the reduction of GFS report preparation time, costs, and effort, along with improvements in the source data for these reports, with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result.

Diagram 1

Process for Considering Differences between IPSASs and GFS Reporting Guidelines



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